THE IMPACT OF OIL DEVELOPMENT ON AN ILLINOIS COMMUNITY

BY
WINFIELD LYLE WILLHITE
B. S., Lewis Institute, 1936
M. S., University of Illinois, 1937

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SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS
IN THE GRADUATE SCHOOL OF THE UNIVERSITY
OF ILLINOIS, 1941

URBANA, ILLINOIS
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(A) Introduction

The study of communities has been a fertile field for activity in which social scientists of all types have participated. Few attempts have been made in these studies, however, to investigate the effects upon a community of some new form of economic or industrial development. The description and analysis of an Illinois community under the impact of oil development has as its purpose the supplementation of our present knowledge regarding this type of phenomenon. The materials for the study have come from newspapers, personal interviews, correspondence, and the records of various business agencies. The word "community" as used in this study denotes any area of common life which is somehow distinguishable from further areas, whether it be by legal boundaries or indefinite boundaries, such as the limits of service areas of economic institutions such as stores and banks. It is recognized that the community contains an area of regulated participation for the personnel living in the locality or sharing in the activities.

The community of Salem was selected as the object of the study because it was undergoing changes brought about by the discovery of oil near the community boundaries. Salem had been a small, stable, and quiet community at the start of the oil development. Its personnel was of the type which may be found in many small communities for there was no great amount of economic differentiation between the various groups of residents. The discovery of oil caused a rapid inflow of new residents leading to the formation of several new population categories within the community.

(B) The Public Problems Arising From the Development of Oil

The discovery of oil and the attendant inflow of population caused a number of problems to arise in the supplying of adequate public utilities such as water and sewerage, electricity, gas, and community streets. These problems were solved by the utilities in various ways, of which some seemed to be economically advisable, while others did not.

The increased need for water and sewerage facilities was a problem whose solution could not be postponed for any length of time because of the health factors which were involved. The question which arose was whether the added population, being of a transitory nature, should be charged for the greater part of the increase in expenditure for these facilities. This would have led to a general discontent on the part of the oil workers even had it been possible, and the small increase which was made in the water and sewerage rates was the most advantageous action under the existing circumstances.

The demand for electricity and power caused an expansion of the system which revealed a definite lack of long range planning. While the revenue bond method of finance was the only one which could have been used in the given situation, yet the economic feasibility of the widespread extensions which were made may be questioned in light of the fact that a temporary source of power would have served the purpose and allowed for a rapid readjustment to periodical needs determined by the changing character of the population and the resulting changes in business and industrial needs.

The street improvements were the only ones which were financed through securities that became a direct obligation of Salem. While the community used the only method of finance possible, yet payment from the Motor Fuel Tax Funds, as has been planned, will not be sufficient to cover these costs, and other methods of securing these funds must be used, thereby subjecting the tax payers to greater drains in the future than had been expected. In contrast to the need for the street improvements was the installation of the gas utility which was one project which did not grow out of an economic need, but sprang from a civic feeling that predicted a greater growth for the community. While there can be little question that the revenue bond method of finance was economically expedient in this case, yet the computations of profits to be received from this project as given by the engineering company were inaccurate and the rates planned were indirectly admitted to be high in relation to the cost of the service. The residents of Salem might have saved themselves this expenditure through the use of other public facilities.

The procedure of the community in solving these problems may be evaluated in the light of the financing of the entire program of public improvements. The usual practice in the planning of the maturities of revenue bonds is to keep the total of the principal plus interest approximately the same throughout the life of the issue. If existing conditions are recognized, however, and the character of the population is considered as an important element in the planing of these maturities, it seems that a different procedure would have been more desirable in this community. If the revenue certificates had matured in large amounts in the near future and decreased with the passage of time, the increased cost of the utilities would be partly allocated to the incoming population group. However, this would have put a heavy burden upon the system immediately and might possibly have caused financial difficulties. The placing of the various institutions which furnish service to the community upon an independent basis is important from an economic standpoint for previously the majority of the deficits in city finances had been met through transfers from the electric light plant and system, a practice which was quite unfair to the electric consumers.

The main criticism which may be offered as to the action of the comunity is that it as been apparently looked upon a temporary situation as being one which it may consider as lasting over a long period of time and has directed its economic actions in accordance with this misconception. While the community and its residents have taken the attitude that self-supporting municipal debt can be disregarded, debt services which are paid out of municipal utility earnings are nevertheless as much a charge against the community income as if they were supported by the general property tax.

(C) The Effects of the Oil Discovery Upon the Public Finance of the Community.

The discussion of the economic consequences of the development of oil upon the financial structure of the local community has two aspects. The first concerns the municipal finances as directly reflected in the reports of the city treasurer which are limited to expenditures for the areas circumscribed by the corporate boundaries. The second concerns the finance of the larger area that contains the community but which is geographically more expansive.

The development of oil and the attendant inflow of population has been followed by an increase in the assessed valuation of the community and the lowering of the rate of levy for tax purposes. In an analysis of the total receipts and disbursements of Salem, a comparison of total cash receipts with total disbursements yearly over a six year period indicates that, while both were declining during the period 1935-1936 to 1937-1938, they rose during the first year of the oil discovery, increased by a large amount during 1939-1940, and followed the same procedure in 1940-1941. While receipts have exceeded expenditures during the past two years, yet the large proportion of this income has come from borrowing and not from tax sources.

The adjusted receipts and disbursements of the corporate fund show that there was a deficit in the cash balance at the end of 1940-1941 which was the first that had occurred since 1936-1937. This shortage must be covered in the future either by taxation or by additional revenues from licenses and fees. The covering of this deficit through borrowing is not permanently desirable if current services are to be furnished and the financial condition of the community materially improved. The purposes for which the various corporate funds have been expended have been affected extensively by the oil development. However, the increase in corporate expenditures since the oil development began has been accompanied by a rise in corporate income. Undoubtedly, some of the increases in spending are justifiable on the basis of the service to the added population. The shortage in 1940-1941 will evidently cause some increase in the tax rate in the future if all expenditures are to be covered, and, as a result, those property owners who have benefited from the oil development in the past will be asked to give up a small proportion of any income which they have received as a direct result of the development of oil.

The subject of the finance of areas which include the community involves the discussion of the Motor Fuel Tax Funds, relief and education. The Motor Fuel Tax Funds received from the state have increased since the discovery of oil but it is impossible to discover a causal relationship between the two factors. As a result of the increase in assessed valuation of the township, it now has assumed the complete burden of the financing of relief, a large part of which formerly was handled by the state. While these relief funds have decreased, the sums received for educa-

tional purposes by the community schools have increased because of the increased enrollment caused by the population brought into the community by the oil. The funds for educational purposes have also been bolstered by the increased tuition payments from non-high school districts.

(D) The Businesses and Industries of the Community Under the Impact of Oil Development

The development of oil has had extensive effects upon the original businesses in Salem, but the greatest growth in economic activity has involved the establishment of businesses furnishing services to the community. The inflow of so many new business units created a lack of adequate housing for not all of the organizations which desired to enter into the economic life of the community were able to do so. While there were the possible solutions of the erection of new buildings or the purchase of desirable sites, yet there seemed to be hindrances in each case for there was little means of ascertaining the length of time for which the development of oil would continue. The result was that new business sections arose on the outskirts of the community.

The general result of the development of oil has been that, with but two exceptions, all types of business had more activity than they had experienced previously even though competition had become stronger. The increase in competition may, in the future, prove to be an advantage in that most of the original business units have not expanded their facilities to any great extent. The two types of businesses which have not benefited from the oil discovery are the bakeries and dairies.

The increased income received by many of the business units which were members of the original community has not been a net increase because with the increased activity, from all evidence which can be found, the rents of business units have also risen. Rents have increased, however, only where the leases have expired and many of the merchants were fortunate enough to hold leases which ran over a period of years. Another problem for the merchants has been the manner of conducting their businesses, for with the inflow of a heterogeneous group of strangers the granting of credit became a major problem. However, in general it was found that the oil workers were poor credit risks.

The owners and managers of business units in Salem have assumed that the gains which they have made will be permanent ones. It may be concluded that those stable businesses which have not expanded either in numbers or size may experience a permanent gain. However, in the case of units such as the grocery stores of the original community, while their only expansion has been in the inventory carried, yet if the population declines and a period of business recession occurs, the units will, for the time being, at least, face increased competition. This competition may arise from those establishments which have expanded or have recently entered the community. The answer to the question of whether the present economic gains experienced by a number of the businss units may be considered as permanent or only temporary depends upon a number of factors including: (a) the general movement of events in the outside world, (b) the length of time elapsing before the oil resources are depleted, (c) whether other economic activities such as the establishment of new industries serves to compensate for the deficiency experienced in the oil industry.

The most important problem which has faced the industries of Salem as a result of the oil development has been the problem of securing an adequate labor supply. The supply of male labor has not been greatly affected by the discovery of oil, since their types of work required a special type of skill. However, the supply of women workers has been affected because of their marriage to the oil men and their consequent leaving the community. Another factor causing a decline in the labor supply has been the apparently high costs of housing. These factors have caused the industries to give serious consideration to the idea of leaving the community. The residents of Salem consider that such a move on the part of the industries would be disastrous. However, the economic expediency of the maintenance or acquiring of industrial units through the granting of favorable inducements as Salem has done is questionable, for, if the grant will not bring an economic gain over and above the sum expended, there can be no economic basis for the desire to maintain or acquire the unit.

The housing shortage, previously mentioned, which was caused by the discovery of oil, caused a great amount of difficulty in the community and numerous substitutes for houses, such as trailers, tents, and tourist cabins, have been used. Pri-

marily the solution to the problem depends upon the supply which was in existence in the past and the rents which were charged. From the evidence which could be found, it was discovered that conditions not usually recognized in theoretical discussions entered into the determination of rents, such as occupational status and the length of residence in the community.

(E) The Economic Effects of the Oil Development Upon the Various Agencies Serving the Community

The local banking institution has been affected by the oil development in that it has experienced an increase in total deposits and a steadily mounting reserve ratio. The total deposits have grown because of the increased business brought by the various phases of the oil activity. However, most of the oil business is of such nature that the funds must be held subject to demand and, therefore, cannot be considered in the light of average bank deposits. Thus any advantage from this growth in deposits has been eliminated because the increased volume of business has materially raised operating costs and there has been little, if any, local demand for loanable funds.

The building and loan associations have been affected extensively by the period of rising property values and the demand for property which accompanied the oil development. The Salem associations have been able to dispose of all their real estate because of the demand which has been in existence. This lack of real estate places the associations in an advantageous position for the increase in property values enabled them to dispose of their holdings at high prices. The building and loan associations have been able to set up a number of reserve accounts as preparation against any future contingencies which may arise, for essentially these reserves serve as buffers which have been retained in the associations to protect their financial condition in the event of future losses.

With the development of oil the problem of the regulation of extra-legal financial agencies arose. The informal pawn shop has been one of the temporary solutions to the problem of the need for funds upon short-time notice. These financial units are an excellent example of an institution which has arisen to fulfill an economic need for the oil workers are often in need of funds because of their rapid and excessive spending.

The transportation agencies which serve the community have been affected by the oil development in that their activities, both in the transportation of persons and materials, has been increased greatly. From the point of view of the community this has meant that not only has it been affected by the increased activity but members of the local population have become increasingly employed therein thus bringing added income to stimulate the business activity of the community.

The communication agency has been affected by the oil development in that it has seen a period of growth in its activity. From the point of view of the community this has not only meant an increase in population through the hiring of new employees, but increased consumption of goods, thereby benefiting some occupational and mercantilistic groups. The increase in costs to the community subscribers of these services through increases in rates have been offset by the increased range of service which is available to them.

This discussion concludes the survey of Salem since the discovery of oil. It has been the description and analysis of the changes which took place in a small community that, previous to the oil development, was well financed, well organized, and had a population which met community problems with unified actions. On the whole it was a rather prosperous community. The discovery of oil brought about new problems and Salem became a community which physically was not as desirable as a residential area, yet more desirable, for the most part, as a place in which to carry on economic activities . However, even with the change, the financial stability and most of the older institutions have been maintained. The question arises as to whether all communities would have similar histories under like circumstances. The answer to this question would be dependent upon the interrelationships and the previous stability of the various elements within the community.

VITA

Winfield Lyle Willhite was born in Mt. Carmel, Illinois, on September 8, 1913. Both his primary and secondary education were secured in the schools of that city. He received the Bachelor of Science Degree in the Liberal Arts and Sciences from Lewis Institute of Chicago in 1936 and after spending the Spring Quarter of the school year of 1935-36 in the Graduate School of Business of the University of Chicago, he transferred to the University of Illinois in the fall of 1936. He received the degree of Master of Science in Economics in 1937 and since that time has been pursuing his studies toward the Doctor of Philosophy Degree in Economics at the University of Illinois.